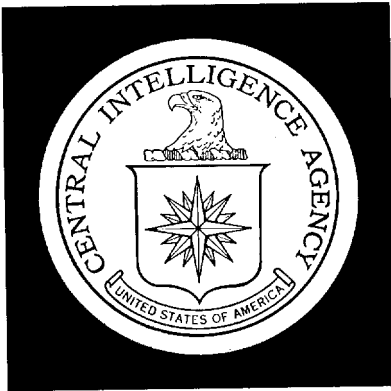


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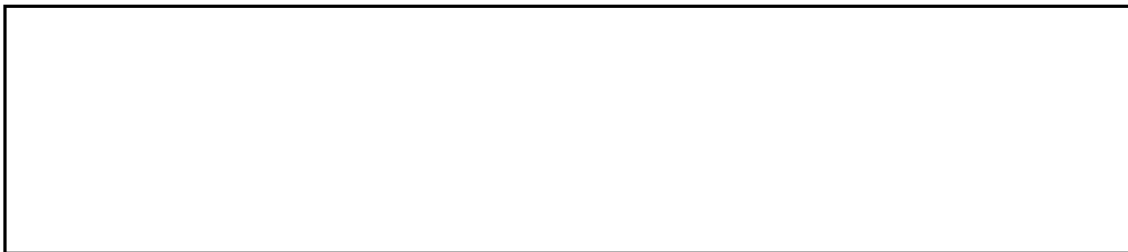
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SECRET

No. 0107/71
5 May 1971

Central Intelligence Bulletin

CONTENTS



25X1

INTERNATIONAL MONETARY SITUATION: Accelerated dollar flows into foreign banks. (Page 4)

IRAN: Students have been demonstrating against the regime. (Page 5)

USSR-ZAMBIA: Moscow apparently wants to sell arms to Zambia. (Page 6)

CZECHOSLOVAKIA: Security precautions (Page 7)

YEMEN (SANA): New cabinet (Page 7)

DAHOMY: Constant coup plotting (Page 8)

AFGHANISTAN: No-confidence vote postponed (Page 8)

SECRET

25X1

Approved For Release 2003/08/21 : CIA-RDP79T00975A018900100001-1

Next 2 Page(s) In Document Exempt

Approved For Release 2003/08/21 : CIA-RDP79T00975A018900100001-1

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INTERNATIONAL MONETARY SITUATION: Dollar flows into foreign central banks, which began some months ago mainly in response to the lowering of interest rates in the US, have accelerated during the past few weeks.

The flows have been spurred by official European concern over the size of the US balance-of-payments deficit and by French statements stressing the need for a devaluation of the dollar, possibly through an increase in the official price of gold. Reflecting the weaker position of the dollar, the free market price of gold fluctuated upward during the past week. Yesterday morning's increase of 43 cents was one of the largest on record.

Unease in money markets was heightened by Monday's announcement by five West German economic institutes suggesting that the mark be revalued or allowed to float. Yesterday the Bundesbank took in about \$1 billion. Much of this money is speculative in anticipation of a revaluation of the mark.

Although the mark-dollar rate is not in fundamental disequilibrium, some change in parity for the mark cannot be ruled out. Through an upward revaluation of the mark, West Germany could reduce inflationary pressures, now at the highest rate in 20 years, and meet its commitment to orderly and stable growth. On the other hand, the government is also committed to greater European monetary cooperation. On 1 June Bonn, along with other European Community countries, is scheduled to reduce the margins within which its currency can fluctuate. Faced with this deadline, West Germany could choose to allow the mark to float to a more realistic level.



5 May 71

Central Intelligence Bulletin

4

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SECRET

IRAN: Antiregime demonstrations have again erupted at Tehran University.

Last week at the university's troubled Engineering Faculty, students protested the arrest of seven classmates in connection with rioting last November and December. After the breakup of a meeting arranged to establish a student-faculty "dialogue," 700 students began marching on the campus, shouting slogans identified with Marxist causes and reviling the Shah, his reform programs, and the expenses of Iran's 25th centenary celebrations.

Police reacted forcefully, in contrast to last year's restrained response, and dispersed the crowd with riot clubs, tear gas, and submachine guns. About 250 students were arrested, and an equal number were injured, some severely. The university has been reopened, but attendance has been light, despite the stationing of police on campus for the first time since 1968.

Sympathy demonstrations spread to other colleges in Tehran over the weekend. Riot police have been stationed outside Polytechnic and National universities, and entered Aryamehr University on Sunday to disperse demonstrators.

The use of slogans identified with antigovernment Marxist causes, which are known to be funded from Communist sources, reinforces earlier indications that among the protestors are hard-core leftists who the US Embassy believes are inspired or directed from outside the country. As such, they are likely to remain inimical to the Shah and his programs regardless of any conciliatory gestures made by the government. The demonstrations appeared to have little support outside the core group of student agitators, however, and are believed to have had little effect on the student body as a whole.

25X1

5 May 71

Central Intelligence Bulletin

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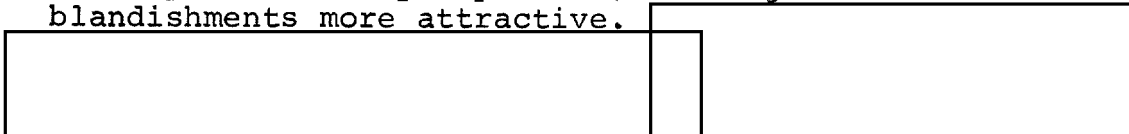
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USSR-ZAMBIA: Moscow, anxious to offset effects of Communist Chinese assistance, appears to be making a concerted effort to sell arms to Zambia.

The Zambian defense minister departed Moscow on 3 May after a 17-day stay during which he met with high-ranking Soviet civilian and military leaders. The presence of the Soviet chief of the Main Directorate Military Assistance at the meetings with Defense Minister Grechko strongly suggests that military aid was a major topic of discussion. Moscow may feel that military aid is another possible means of countering large-scale Chinese economic aid to Zambia.

It is not clear whether Lusaka was seeking a military agreement or if the talks merely were exploratory. In the past, Zambia has put out feelers for military assistance to several countries, reportedly including the USSR. Lusaka, however, is extremely suspicious of Soviet intentions in Africa, and has confined its military purchases to European countries, notably the UK, Italy, West Germany, and Yugoslavia, that are considered politically safe. On the other hand, a current dispute with Portugal over Zambia's support for anti-Portuguese insurgent organizations has reminded Lusaka of its vulnerability to military reprisals, and might make Soviet blandishments more attractive.



25X1

5 May 71

Central Intelligence Bulletin

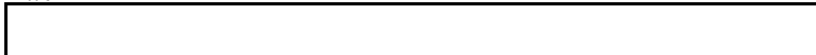
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CZECHOSLOVAKIA: The regime is taking additional steps to prevent disturbances during the period before the party congress, scheduled to open on 25 May, by restricting the entrance of Western visitors to the country and instituting arrests designed to intimidate political opponents. Contrary to Prague's earlier denials that travel restrictions were being imposed, Czechoslovak visas currently issued to individual Western travelers are invalid for the entire month of May. Meanwhile, security police in Bohemia have rounded up several hundred persons in the past few days on charges ranging from illegal possession of arms to traffic offenses. Such preventive detention has occurred in the past during significant anniversaries and party events, and this time additional arrests--possibly of some prominent ex-liberals--reportedly are being considered, perhaps in connection with Czechoslovakia's Liberation Day on 9 May or the party congress. If past practice is a guide, however, many of those detained will be released after the week-long party meeting.



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YEMEN (SANA): Yemen's new cabinet portends no radical shift in political direction. Ahmad Numan, a veteran politician who served briefly as prime minister in one of the first republican governments, has been appointed to head the relatively moderate government that came into being on 3 May as a result of an election held early this year. The election, whose results were tallied only last month, was held largely for public relations purposes. The cabinet make-up reflects a balance achieved in behind-the-scenes maneuvering by traditional power factions. If Numan's condition that he control the army has been met, it will give his government an added measure of stability and authority.

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5 May 71

Central Intelligence Bulletin

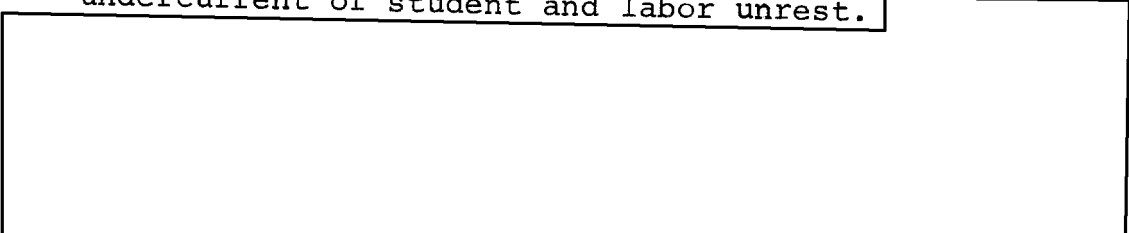
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DAHOMY: President Maga has survived virtually constant coup plotting by key army officers to reach the mid-point of his two-year term as head of the government, but his grip on the reins of power remains basically insecure. His government is still beset by severe strains within the three-man Presidential Council, which was formally given power by the military a year ago, and there is a continuing undercurrent of student and labor unrest.



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AFGHANISTAN: Parliament has postponed consideration of a no-confidence motion against the cabinet until early next week. Although the postponement was requested by King Zahir, it is not yet clear whether the King intends to make an energetic effort to save Prime Minister Etemadi and his government from defeat. The King commands the loyalty of most of Parliament, and if he decides to lobby vigorously in his prime minister's behalf, he may be able to prevent passage of the no-confidence motion or bring about a compromise arrangement of some kind that would keep the Etemadi cabinet in office.



5 May 71

Central Intelligence Bulletin

8

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